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TREASURY FOR DEPUTY SECRETARY'S OFFICE AND DO/W.LINDQUIST
STATE FOR EUR/WE, EEB/IFD/OMA, AND EEB/ESC

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [KTFN](#) [SP](#) [IR](#)

SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT'S MEETING WITH
SECRETARY OF STATE FOR ECONOMY VEGARA

SIPDIS

REF: STATE 21770

Classified By: DCM Hugo Llorens for Reasons 1.5(b) and (d)

¶1. (C) Summary: Treasury Deputy Secretary Kimmitt met with Secretary of State for Economy David Vegara on March 6. Kimmitt expressed his confidence in the underlying strength of the U.S. economy. Both agreed that accounting rules would be very important for dealing with issues surrounding the pricing of risk. Vegara expressed great interest in the upcoming release of a report by the President's Working Group on Financial Markets. Vegara expressed general agreement with the Deputy Secretary's views on investment protectionism and the role of sovereign wealth funds. The Deputy Secretary delivered reftel demarche on UNSCR 1803, and Vegara said Bank Sepah assets had been frozen in Spain. The Secretary of State expressed general support for the Clean Technology Fund (CTF). Deputy Secretary Kimmitt said that there was general USG support for some of the ideas contained in a recent IMF staff report on IMF reform - he added that it was a "good starting point," although not necessarily sufficient, for dealing with quotas.

¶2. (U) The Deputy Secretary was accompanied by Deputy Chief of Mission Hugo Llorens, Treasury Economist William Lindquist and Econoff Carl Schonander. Vegara was accompanied by three staff members.

U.S. MACROECONOMIC DEVELOPMENTS

¶3. (C) The Deputy Secretary said that he believed that the macroeconomic fundamentals in the U.S. remained strong, although growth was slowing and there would be difficulties in the next couple of quarters. He said he thought the short-term difficulties could be overcome through interest rate cuts, the fiscal stimulus package and help for homeowners. Homeowners could be helped mostly through market mechanisms, but Kimmitt referred to congressional pressures to do more. He added that the Administration continued to pursue a pro-growth agenda, address the twin deficits, and lay the intellectual groundwork for dealing with the Social Security and Medicare entitlement programs. Vegara asked about the dollar, and Kimmitt referred to Secretary Paulson's statements on the strong dollar policy and noted that many businesses in the U.S. had strong balance sheets, i.e., there were many indications that the fundamentals in the U.S. remained strong. Vegara couched his interest in the dollar not in terms of the trade implications but rather what might

happen to long-term U.S. interest rates should the dollar continue to weaken. He concluded that if the U.S. economic authorities believed long-term interest rates would remain low, there should not be a problem.

ACCOUNTING KEY TO REPRICING RISK

14. (C) Both the Deputy Secretary and the Secretary of State agreed that the financial markets were engaged in repricing risk. Vegara expressed particular concern that not all the losses in the financial system had yet been discovered, particularly losses held by hedge funds, private equity funds and sovereign wealth funds. Kimmitt agreed there might be a problem in this regard with the first two, but not so much with the sovereign wealth funds. Vegara said he thought that it would be very important for there to be even more transatlantic cooperation on accounting matters. Kimmitt strongly agreed, noting that the creation of the Transatlantic Economic Council (TEC) had probably accelerated the mutual recognition of USGAAP and IFRS rules by at least a year. He said that now was the time to engage in even deeper discussions on accounting issues. The Deputy Secretary noted that the U.S. had an additional interest in looking at accounting rules in order to strengthen the international competitiveness of American capital markets.

INVESTMENT PROTECTIONISM AND SOVEREIGN WEALTH FUNDS

15. (C) Deputy Secretary Kimmitt noted that the debate on this topic had originally started in Germany in the context of Gazprom, which was not a sovereign wealth fund. He explained that the USG had no problem with sovereign wealth funds per se as long as they did not make investment decisions for political reasons. He added that it is understandable that a sovereign wealth fund would invest a portion of a government's reserves in equities instead

* Missing Section 002 *
